



Legislative Audit Division

State of Montana

Report to the Legislature

December 2004

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 2004

Department of Public Service Regulation

**This report contains two recommendations regarding compliance with
state law and accounting entity transfers.**

**Direct comments/inquiries to:
Legislative Audit Division
Room 160, State Capitol
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04-27

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FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2005, will be issued by March 31, 2006. The Single Audit Report for the two fiscal years ended June 30, 2003, was issued on March 23, 2004. Copies of the Single Audit Report can be obtained by contacting:

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Office of Budget and Program Planning
State Capitol
Helena MT 59620
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Legislative Audit Division
Room 160, State Capitol
PO Box 201705
Helena MT 59620-1705

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Jim Pellegrini, Performance Audit
Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

December 2004

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Department of Public Service Regulation for fiscal years 2002-03 and 2003-04. Included in this report are two recommendations addressing compliance with state law and accounting entity transfers.

The department's written response to the audit recommendations is included at the end of the audit report. We thank the commissioners and their staff for their assistance and cooperation throughout the audit.

Respectfully submitted,

(Signature on File)

Scott A. Seacat
Legislative Auditor

Legislative Audit Division

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 2004

Department of Public Service Regulation

Members of the audit staff involved in this audit were Hollie Koehler,
Vickie Rauser, and Jeff Tamblyn.

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Appointed and Administrative Officials

Public Service Commission

	<u>Term Expires</u>
Bob Rowe, Chair	January 2005
Tom Schneider, Vice Chair	January 2007
Matt Brainard	January 2005
Greg Jergeson	January 2007
Jay Stovall	January 2005

Administrative Officials

Wayne Budt, Administrator
Transportation and Centralized Services Division

Robin McHugh, Administrator, Legal Division

Kate Whitney, Administrator, Utility Division

For additional information concerning the Department of Public
Service Regulation programs contact:

Wayne Budt, Administrator
Transportation and Centralized Services Division
Public Service Regulation
PO Box 202601
Helena MT 59620-2601
Phone: (406) 444-6195

Department of Public Service Regulation

We performed a financial-compliance audit of the Department of Public Service Regulation (department) for the two fiscal years ended June 30, 2004. The previous audit report of the department contained two recommendations. The department implemented one recommendation and did not implement one recommendation.

This report contains two recommendations where the department could improve accounting and enhance compliance with state policies and laws. The department's written response to the audit recommendations begins on page B-3.

We issued a qualified opinion on the financial schedules contained in the report. The opinion on page A-3 discusses accounting entity transfers. The reader should use caution when analyzing the presented financial information and the supporting data on the Statewide Accounting, Budgeting, and Human Resources System (SABHRS).

The listing below serves as a means of summarizing the recommendations contained in the report, the department's response thereto, and a reference to the supporting comments.

Recommendation #1

We recommend the department ensure transportation application fees are established in accordance with state law. 6

Department response: Concur. See page B-4.

Recommendation #2

We recommend the department ensure universal access program transfer transactions are processed properly. 7

Department response: Concur. See page B-4.

Introduction

Introduction

We performed a financial-compliance audit of the Department of Public Service Regulation (department) for the two fiscal years ended June 30, 2004. The objectives of the audit were to:

1. Determine whether the department complied with applicable laws and regulations.
2. Make recommendations, if necessary, for improvement in the department's management and internal controls.
3. Determine whether the department's financial schedules present fairly the results of operations for the two fiscal years ended June 30, 2004.
4. Determine the implementation status of the prior audit recommendations.

This report contains two recommendations. During our current audit, we noted areas of concern which we deemed not to have a significant effect on the operations of the department. These concerns are not specifically included in this report, but have been discussed with department management.

In accordance with section 5-13-307(2), MCA, we analyzed and disclosed the cost, if significant and practical to obtain, of implementing the recommendations made in this report.

Background

The Department of Public Service Regulation was created by the Executive Reorganization Act of 1971 and operates under the direction of the Public Service Commission (commission). The commission consists of five voting members who are elected on a district basis and serve a term of four years. After each general election, one of the commissioners is elected by the commission to serve as chairman until the next general election. The chairman exercises authority on behalf of a majority of the commissioners. The department's responsibility is to assure the public receives safe, adequate, and economical utility and transportation service at just and reasonable rates. The department is responsible for the regulation of certain public utilities, motor carriers, railroads, and

Introduction

pipelines within the state. It also performs certain safety inspections of those activities, except for motor carriers, which are inspected by the Highway Patrol Division of the Department of Justice.

The department has 39 full time equivalent (FTE) positions that include five commissioners and the following three divisions:

1. The Utility Division exercises general control over public utilities, including rate determination and safety standards (19 FTE).
2. The Transportation and Centralized Services Division exercises general supervisory control over the activities of motor carriers and railroads, and provides administrative support to the department (10 FTE).
3. The Legal Division advises the commission on matters requiring a legal interpretation or opinion and represents the commission in legal proceedings (5 FTE).

During the 1990s, the Legislature passed several bills which provided for a phase-in to customer choice of electricity and natural gas suppliers and restructuring of the electricity industry (Title 69, Chapter 8, Part 2, MCA) and natural gas industry (Title 69, Chapter 3, Part 14, MCA). Large customers, of a restructured electric utility, had the opportunity to choose an electric supplier by July 1, 1998, and all remaining electric customers were to choose a supplier by July 1, 2002, if administratively feasible. In December 2000, the commission, pursuant to its authority, extended the date for choice to July 1, 2004, finding that there is no viable competition. The 2003 Legislature extended the transition period to July 1, 2027. In addition, the Legislature designated the distribution services provider of a restructured utility to be the default supplier of electricity to non-choice customers. The commission is authorized by section 69-8-210(2), MCA, to regulate the price of electricity supplied by the default supplier.

Prior Audit Recommendations

We performed the prior audit of the Department of Public Service Regulation for the two fiscal years ended June 30, 2002, which resulted in two recommendations. The department implemented one

recommendation and did not implement one. The recommendation not implemented relates to transportation application fees, which is discussed further in this report, beginning on page 5.

Findings and Recommendations

Transportation Application Fee

The department has not implemented a transportation application fee in accordance with section 69-1-114, MCA.

Transportation applications are filed by interested parties for the operating authority to move passengers, household goods, or solid waste from one point to another in the state. The department receives ten to twenty applications each year and approximately two-thirds require hearings. Department officials determined the processing of a transportation application costs \$200 if they do not go to a hearing. If the application is contested the costs could be up to \$1,400. Currently the department has a fee of \$100.

The last two audit reports included a recommendation that the department charge a fee for transportation applications that is commensurate with costs incurred in administering the function for which the fee is charged, with no fee exceeding the \$500 stated in section 69-1-114, MCA. This \$500 limit would not cover the total costs for processing transportation applications. The average cost is approximately \$800. Therefore, there is a subsidy for the difference from the PSC Tax, which is collected from utility companies, to the department's transportation permitting functions.

We found the department has taken measures to implement the prior audit recommendation but is still not in compliance with state law. In 2003, the department requested legislation to amend the law from reading, "fees commensurate with costs" to "reasonable costs," but the legislation did not pass. The department has proposed an administrative rule amendment to change this fee to \$500, with \$300 refundable if the application does not go to a hearing. This amendment is in process and the department plans to have it adopted and implemented by November 2004. Even when this amendment is implemented, fees will still not be commensurate with costs due to the \$500 limit set in law.

Findings and Recommendations

Recommendation #1

We recommend the department ensure transportation application fees are established in accordance with state law.

Accounting Entity Transfers

The department did not properly record accounting entity transfers.

State law requires the department to input all necessary transactions before the end of the fiscal year to present the receipt, use, and disposition of all money for which it is accountable, in accordance with generally accepted accounting principles. This report section identifies an area where transactions recorded by the department resulted in misstatements on the accounting records.

Until June 30, 2003, the department managed the Universal Access program, which provided discounts for advanced telecommunication servicers to communities, schools, libraries, and health care providers. Advanced services were defined as high speed (56 kbps and above), dedicated or switched, broadband capability. Chapter 17, Laws of 2002, required the department to transfer ninety percent of the remaining balance in its universal access fund to Department of Public Health and Human Services (DPHHS) and ten percent to the General Fund by June 30, 2003. The department made two separate errors in relation to the transactions required to transfer the remaining funds.

- ▶ When personnel recorded the transfer to DPHHS, they used a transfer-in account instead of using a transfer-out account, resulting in a negative balance of \$591,943 for revenue in fiscal year ended June 30, 2003. This error resulted in a qualified opinion on the financial schedules (see page A-3).
- ▶ Personnel made the General Fund ten percent transfer in fiscal year 2003-04 instead of making it in fiscal year 2002-03. As a result, accounting entity transfers for the fiscal year ended June 30, 2003, are understated by \$65,771. Department personnel processed the appropriate correcting entry in fiscal year 2003-04.

Findings and Recommendations

Department personnel were unaware of the accounting policies related to these transactions. Since accounting entity transfers are unusual and infrequent to the department, the department should have worked with Department of Administration's Accounting Bureau, which is responsible for setting accounting policy and providing assistance to departments.

Recommendation #2

We recommend the department ensure universal access program transfer transactions are processed properly.

Independent Auditor's Report & Agency Financial Schedules

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel



Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Schedule of Changes in Fund Balance for the fiscal year ended June 30, 2004; the Schedule of Changes in Fund Balances & Property Held in Trust for the fiscal year ended June 30, 2003; and the Schedules of Total Revenues & Transfers-In and Schedules of Total Expenditures & Transfers-Out for each of the fiscal years ended June 30, 2004, and June 30, 2003, of the Department of Public Service Regulation. The information contained in these financial schedules is the responsibility of the department's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, the financial schedules are presented on a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The schedules are not intended to be a complete presentation and disclosure of the department's assets and liabilities.

The department incorrectly recorded a transfer in fiscal year 2002-03. As a result, Other Financing Sources and Nonbudgeted Revenues & Transfers-In are understated by \$591,943 in the State Special Revenue Fund. Nonbudgeted Expenditures & Transfers-Out and Accounting Entity Transfers are understated by the same amount.

In our opinion, except for the effects of the matter discussed in the preceding paragraph, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances and property held in trust of the Department of Public Service Regulation for each of the fiscal years ended June 30, 2004, and 2003, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

(Signature on File)

James Gillett, CPA
Deputy Legislative Auditor

September 29, 2004

PUBLIC SERVICE REGULATION
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund
FUND BALANCE: July 1, 2003	\$ <u>6,007</u>	\$ <u>(5,011)</u>	\$ <u>1,347</u>
ADDITIONS			
Budgeted Revenues & Transfers-In	4,680	14,585	13,776
NonBudgeted Revenues & Transfers-In	2,048	7,352	
Direct Entries to Fund Balance	<u>(11,764)</u>	<u>2,657,659</u>	<u>316,871</u>
Total Additions	<u>(5,036)</u>	<u>2,679,596</u>	<u>330,647</u>
REDUCTIONS			
Budgeted Expenditures & Transfers-Out		2,695,239	330,589
NonBudgeted Expenditures & Transfers-Out	6,863		
Prior Year Expenditures & Transfers-Out Adjustments		<u>67,525</u>	
Total Reductions	<u>6,863</u>	<u>2,762,764</u>	<u>330,589</u>
FUND BALANCE: June 30, 2004	\$ <u><u>(5,892)</u></u>	\$ <u><u>(88,179)</u></u>	\$ <u><u>1,405</u></u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

PUBLIC SERVICE REGULATION
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Agency Fund
FUND BALANCE: July 1, 2002	\$ (1,094)	\$ 1,077,830	\$ 1,448	\$ 0
ADDITIONS				
Budgeted Revenues & Transfers-In	5,460	20,298	16,690	
NonBudgeted Revenues & Transfers-In	1,060	(557,511)		
Direct Entries to Fund Balance	(6,282)	2,018,916	(2,780)	
Additions to Property Held in Trust				60
Total Additions	<u>238</u>	<u>1,481,703</u>	<u>13,910</u>	<u>60</u>
REDUCTIONS				
Budgeted Expenditures & Transfers-Out		2,564,904	14,011	
NonBudgeted Expenditures & Transfers-Out	(6,863)			
Prior Year Expenditures & Transfers-Out Adjustments		(360)		
Reductions in Property Held in Trust				60
Total Reductions	<u>(6,863)</u>	<u>2,564,544</u>	<u>14,011</u>	<u>60</u>
FUND BALANCE: June 30, 2003	<u>\$ 6,007</u>	<u>\$ (5,011)</u>	<u>\$ 1,347</u>	<u>\$ 0</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

PUBLIC SERVICE REGULATION
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>General Fund</u>	<u>State Special Revenue Fund</u>	<u>Federal Special Revenue Fund</u>	<u>Total</u>
TOTAL REVENUES & TRANSFERS-IN BY CLASS				
Licenses and Permits	\$ 4,680			\$ 4,680
Taxes		\$ 2,151		2,151
Charges for Services	2,048	18,685		20,733
Miscellaneous		1,101		1,101
Federal			\$ 13,776	13,776
Total Revenues & Transfers-In	<u>6,728</u>	<u>21,937</u>	<u>13,776</u>	<u>42,441</u>
Less: Nonbudgeted Revenues & Transfers-In	2,048	7,352		9,400
Prior Year Revenues & Transfers-In Adjustments				
Actual Budgeted Revenues & Transfers-In	<u>4,680</u>	<u>14,585</u>	<u>13,776</u>	<u>33,041</u>
Estimated Revenues & Transfers-In	6,250	25,075	13,904	45,229
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ (1,570)</u>	<u>\$ (10,490)</u>	<u>\$ (128)</u>	<u>\$ (12,188)</u>
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS				
Licenses and Permits	\$ (1,320)			\$ (1,320)
Charges for Services		\$ (10,490)		(10,490)
Fines, Forfeits and Settlements	(250)			(250)
Federal			\$ (53)	(53)
Federal Indirect Cost Recoveries			(75)	(75)
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ (1,570)</u>	<u>\$ (10,490)</u>	<u>\$ (128)</u>	<u>\$ (12,188)</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

PUBLIC SERVICE REGULATION
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	<u>General Fund</u>	<u>State Special Revenue Fund</u>	<u>Federal Special Revenue Fund</u>	<u>Total</u>
TOTAL REVENUES & TRANSFERS-IN BY CLASS				
Licenses and Permits	\$ 5,460			\$ 5,460
Taxes		\$ 120		120
Charges for Services	1,060	49,329		50,389
Miscellaneous		5,281		5,281
Other Financing Sources		(591,943)		(591,943)
Federal			\$ 16,685	16,685
Federal Indirect Cost Recoveries			5	5
Total Revenues & Transfers-In	<u>6,520</u>	<u>(537,213)</u>	<u>16,690</u>	<u>(514,003)</u>
Less: Nonbudgeted Revenues & Transfers-In	<u>1,060</u>	<u>(557,511)</u>		<u>(556,451)</u>
Actual Budgeted Revenues & Transfers-In	<u>5,460</u>	<u>20,298</u>	<u>16,690</u>	<u>42,448</u>
Estimated Revenues & Transfers-In	<u>5,750</u>	<u>27,550</u>	<u>13,716</u>	<u>47,016</u>
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ (290)</u>	<u>\$ (7,252)</u>	<u>\$ 2,974</u>	<u>\$ (4,568)</u>
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS				
Licenses and Permits	\$ (40)			\$ (40)
Charges for Services		\$ (7,252)		(7,252)
Fines, Forfeits and Settlements	(250)			(250)
Federal			\$ 3,019	3,019
Federal Indirect Cost Recoveries			(45)	(45)
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ (290)</u>	<u>\$ (7,252)</u>	<u>\$ 2,974</u>	<u>\$ (4,568)</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

PUBLIC SERVICE REGULATION
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	<u>PUBLIC SERVICE REGULATION PROGRAM</u>
Personal Services	
Salaries	\$ 1,734,183
Employee Benefits	457,981
Total	<u>2,192,164</u>
Operating Expenses	
Other Services	436,942
Supplies & Materials	22,289
Communications	57,004
Travel	70,991
Rent	201,849
Repair & Maintenance	781
Other Expenses	52,425
Total	<u>842,281</u>
Transfers	
Accounting Entity Transfers	65,771
Total	<u>65,771</u>
Total Expenditures & Transfers-Out	<u>\$ 3,100,216</u>

EXPENDITURES & TRANSFERS-OUT BY FUND

General Fund	\$ 6,863
State Special Revenue Fund	2,762,764
Federal Special Revenue Fund	330,589
Total Expenditures & Transfers-Out	<u>3,100,216</u>
Less: Nonbudgeted Expenditures & Transfers-Out	6,863
Prior Year Expenditures & Transfers-Out Adjustments	67,525
Actual Budgeted Expenditures & Transfers-Out	<u>3,025,828</u>
Budget Authority	3,700,348
Unspent Budget Authority	<u>\$ 674,520</u>

UNSPENT BUDGET AUTHORITY BY FUND

State Special Revenue Fund	\$ 674,364
Federal Special Revenue Fund	156
Unspent Budget Authority	<u>\$ 674,520</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

PUBLIC SERVICE REGULATION
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	PUBLIC SERVICE REGULATION PROGRAM
Personal Services	
Salaries	\$ 1,584,327
Employee Benefits	397,539
Total	<u>1,981,866</u>
Operating Expenses	
Other Services	159,533
Supplies & Materials	38,770
Communications	60,115
Travel	69,481
Rent	201,197
Repair & Maintenance	362
Other Expenses	67,443
Total	<u>596,901</u>
Equipment & Intangible Assets	
Equipment	<u>(7,075)</u>
Total	<u>(7,075)</u>
Total Expenditures & Transfers-Out	<u>\$ 2,571,692</u>
EXPENDITURES & TRANSFERS-OUT BY FUND	
General Fund	\$ (6,863)
State Special Revenue Fund	2,564,544
Federal Special Revenue Fund	14,011
Total Expenditures & Transfers-Out	<u>2,571,692</u>
Less: Nonbudgeted Expenditures & Transfers-Out	(6,863)
Prior Year Expenditures & Transfers-Out Adjustments	(360)
Actual Budgeted Expenditures & Transfers-Out	<u>2,578,915</u>
Budget Authority	3,455,040
Unspent Budget Authority	<u>\$ 876,125</u>
UNSPENT BUDGET AUTHORITY BY FUND	
State Special Revenue Fund	\$ 875,942
Federal Special Revenue Fund	183
Unspent Budget Authority	<u>\$ 876,125</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

Montana Department of Public Service Regulation

Notes to the Financial Schedules

For the Two Fiscal Years Ended June 30, 2004

1. Summary of Significant Accounting Policies

Basis of Accounting

The department uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (General, and Special Revenue). In applying the modified accrual basis, the department records:

Revenues when it receives cash or when receipts are measurable and available to pay current period liabilities.

Expenditures for valid obligations when the department incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the department to record the cost of employees' annual leave and sick leave when used or paid.

Expenditures may include: entire budgeted service contracts even though the department receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment.

The department uses the following funds:

Governmental Fund Category

General Fund – to account for all financial resources except those required to be accounted for in another fund.

Notes to the Financial Schedules

State Special Revenue Fund – to account for proceeds of specific non-federal resources that are legally restricted to expenditures for specific purposes. Department State Special Revenue Funds include the gross operating revenue tax.

Federal Special Revenue Fund – to account for proceeds of specific federal revenue sources that are legally restricted to expenditures for specific purposes. The department's Federal Special Revenue Funds relate to federal natural gas safety funds and job and growth tax relief act money.

2. General Fund Balance

The department has authority to pay obligations from the statewide General Fund within its appropriation limits. The department's total assets placed in the fund exceeded outstanding liabilities, resulting in positive ending General Fund balance at June 30, 2003. This balance reflects activity at the department and not the fund balance of the statewide General Fund.

The negative fund balance in the General Fund at June 30, 2004, does not indicate overspent appropriation authority. The department expends cash or other assets from the statewide fund when it pays General Fund obligations. The department's outstanding liabilities exceed the assets the department has placed in the fund, resulting in the negative ending General Fund balance.

3. Direct Entries to Fund Balance

Direct entries to fund balance in the General and Special Revenue Funds include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies. The State Special Revenue Fund includes utility gross operating taxes collected by the Department of Revenue on behalf of the department. The Federal Special Revenue Fund includes federal funding received through the Job Growth Tax Relief Act in fiscal year 2003-04.

4. Negative Equipment Expenditure

The negative equipment dollar amount, (\$7,075), resulted from the department's correction of prior year activity.

Notes to the Financial Schedules

5. Other Services

The increased amount of Other Services expenditures in fiscal year 2004 is due to the department hiring a bankruptcy lawyer for the Northwestern Energy Bankruptcy.

Department Response



Montana Public Service Commission

Bob Rowe, Chairman
Tom Schneider, Vice-Chairman
Matt Brainard
Greg Jergeson
Jay Stovall

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November 10, 2004

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LEGISLATIVE AUDIT DIV.

Mr. Scott Seacat
Office of the Legislative Auditor
State Capitol Building, Room 160
PO Box 201705
Helena, Montana 59620-1705

Dear Mr. Seacat:

Enclosed please find the Public Service Commission's response to your final report on the 2003-2004 financial audit of this agency. Included with this response, we are returning the copies of the report per your request.

We enjoyed working with your staff of professional auditors and look forward to meeting with you and the Legislative Audit Committee.

Sincerely,

A handwritten signature in black ink, appearing to read "Tom Schneider".

Thomas J. Schneider
Vice-Chairman

Enclosures

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RESPONSE TO LEGISLATIVE
FINANCIAL COMPLIANCE AUDIT
JUNE 30, 2004

1. FEES

RECOMMENDATION:

DEPARTMENT ENSURE TRANSPORTATION APPLICATION FEES ARE ESTABLISHED IN ACCORDANCE WITH STATE LAW.

RESPONSE:

Concur.

The agency believes that with the adoption of the noted rule it has complied with the statute. The rule sets the application fee at \$500. If the authority application does not require a hearing the commission will return \$300 of the application fee. If the application does go to hearing no refund takes place. It is the commission's opinion that the adopted rule is the fairest and most equitable interpretation of the statute. The fee for any application that does not require a hearing is commensurate with costs. The fee for any application that goes to hearing is the maximum allowed under the statute.

2. ACCOUNTING ISSUES

RECOMMENDATION:

DEPARTMENT ENSURE UNIVERSAL ACCESS PROGRAM TRANSFER TRANSACTIONS ARE PROCESSED PROPERLY.

RESPONSE:

Concur.

Universal Access program was eliminated in the 2003 legislative session.